

Aviation NZ

Our 10 Key Points on the CAA Funding Review

1 What is the role of CAA? - Why has this question not been asked?

CAA's role and funding need to be reviewed together. It does not make sense to look at them separately – how can we decide how much resource CAA needs unless we agree what it's there to do?

This is particularly relevant now – as we move towards risk-based regulation. CAA itself has the philosophy that "Safety is a Shared Responsibility". We agree – which is why industry should be involved in determining the right role and scope of the regulator. This is even more important as the philosophy and technological environment for aviation enters a new era. In this new era operators have even more responsibility for delivering safe operations - through safety management systems and self-separation.

The basis of regulation is changing – so clearly the role of CAA should also be reviewed.

What are the essential functions of the regulator to oversee a safe aviation system? And how can they best do this efficiently?

In our view – CAA's focus should be on the safety of the travelling public – not private operators on private land.

Without clear answers to these fundamental questions – it is not possible for anyone to give an answer on how much resource CAA needs? Thus, this whole process – which will take two years or more, cost a million dollars, and be delivered a year late - is a waste of time and resources.

2 Why is Government not funding CAA like all other safety regulators?

If you get a fine for a speeding ticket – you don't expect to get a bill for the costs of the camera and police time as well. But that's what happens in aviation.

Most regulatory and enforcement functions are provided by Government agencies or in some cases, Crown Entities. All are funded by central government to a much greater extent than CAA. Why is CAA different? – there is no logic for this.

Over the last two years Maritime NZ has received cash injections from government of \$25 million – but CAA has only received \$4.4 million. There is no logic for these differences.

3 CAA regulatory function currently costs industry \$38.3m – and by 2019 will cost \$4.6m extra - What will be the benefits – to safety, the public or industry?

As outlined in 1 above. The fundamental question of what is CAA's role and how much resource it needs has not been asked. So – no-one has any idea if the baseline of \$38.3m is reasonable.

No benefits to anyone have been identified for the extra \$4.6m it will cost CAA to provide regulatory services – so how can anyone justify them?

Aviation safety is increasing – so there is no justification for more funding for CAA. It will not deliver a safer system. See more on this in 6 below.

CAA's revenue has already gone up \$5m over the last three years – and is also forecast to grow strongly. So CAA's income has already gone up significantly – and will continue to do so.

There is no indication of how much total cost the CAA is seeking to recover – what is the goal? If it over-recovers (and by our estimates it will by at least \$2 million) – will the excess be refunded to industry? We doubt it.

So, there is no justification for this increase in cost.

4 Why remove “cross-subsidies” – who is asking for this?

CAA’s focus should be on the safety of the travelling public - as outlined in 1 above. Thus, quite rightly, the majority of the CAA’s safety oversight must be focussed in that area.

CAA is now pushing to move costs away from that area – and increase costs on smaller and private operators. CAA calls this reducing cross-subsidies. But, why?

Again – no benefits for this change are identified. All it will do is increase costs significantly for smaller operators – which they cannot easily pass on.

For smaller operators the cost impacts will be disproportionately higher as they have much smaller revenues and customer base over which it can be shared.

Aviation is a system and we need to focus on the safety of the system – not push good operators out of business.

5 More than \$1,000,000 and two years spent on an unnecessary and unfair process – Why?

Industry has been shut out of consultation. We offered to help develop proposals from the beginning that would be acceptable to industry – using recognised industry liaison groups created with CAA, such as ACAG.

Instead – CAA has spent over a year sitting in its offices developing a 100+ page proposal in a vacuum. Roadshows were then conducted over the Christmas period and industry given a few weeks to respond to the proposals. The lengthy consultation document does not even identify what the cost impact will be for each operator – no actual examples are given. This clearly highlights CAA’s lack of interest or understanding of how its increasing costs impact individual operators.

This is not a fair, robust or transparent process.

Unsurprisingly, the result are proposals which are unacceptable to operators and based on flawed analysis.

6 The analysis is wrong – and we can prove it.

A number of the conclusions and recommendations are not supported by robust data. In many cases supporting data is absent or it is confusing and contradictory. In a number of cases the analysis is clearly flawed – for example it is not based on current or likely aircraft fleet mix.

7 SAFETY is INCREASING – growing the size of CAA won’t help – but may hinder.

Operators deliver safety – not CAA.

Operators are incentivised to be safe – because if they are not they go out of business.

Safety is increasing as shown in the consultation document – so there is no justification for more funding for CAA. It will not deliver a safer system. In fact, it may reduce safety – by reducing the amount of money operators can spend directly on safety in their operation – and diverting it to CAA instead.

The SMS environment increases the role and responsibilities on operators to deliver a SAFE system.

SAFE operators will be driven out of business. UNSAFE operators will increase.

8 Why is there no focus on CAA efficiency? – A huge opportunity to reduce costs significantly

CAA has a cost-plus mentality. There is NO focus on efficiency – better using the huge resource it has already – before it comes to industry asking for more money.

CAA should be looking for efficiencies and opportunities to move away from a fixed cost base to a variable one.

CAA is a monopoly – it has no competitive pressure to be efficient nor effective– and it is not held to account. Where are the:

- Benchmarks of performance against other regulators in NZ and overseas?
- Outcome-focussed performance measures?
- KPIs to deliver a safe and efficient system?
- Service agreements with industry so we see what we get for our \$38.8m per year?

CAA has had the opportunity to automate and streamline routine functions for many years – which it has not taken. Industry has lobbied CAA hard to do this and offered fit for purpose solutions. CAA has not listened and has not acted.

9 Up to \$100k more in compliance costs – for our farming and tourist operators

These charges will cost larger operators between \$50-100k a year. More unnecessary taxes on business and productive sectors.

Minor savings are offered through not charging for routine surveillance, removing the participation fee and reduction in medical fees, but these are only about \$3000 per operator – insignificant compared with the increases.

- **\$300k+ extra tax a year for some agricultural operators**

We represent over 80% of the agricultural aviation operators in our NZAAA Division.

They are all highly professional experienced operators with exemplary safety performance – and this is recognised by CAA. These operators are all considered extremely low risk in the CAA safety matrix. In fact, NZAAA are leaders in driving aviation safety in many campaigns which they lead and fund themselves.

NZAAA spends at least \$100,000 a year to promote and improve aviation safety. This includes the following initiatives:

- Down to the Wire - to remove aerial wire hazards on farms which kill many ag pilots
- Time in Service Recorder (TISR) to eliminate under recording of flight hours – a key industry safety risk
- Accident and incident analysis
- Fatigue Risk Management Program
- AIRCARE and other voluntary Best Practice Standards

The best performing operators will pay another \$400k a year under the funding proposals. Individual operators will see their CAA compliance costs go from less than \$10k a year to over \$100k a year. There is no justification for this.

They will end up having to pass these costs on to farmers. The farming sector is already facing significant pressures – with the downturn in commodity prices, and additional compliance burden from the new HSE reforms and environmental reforms. We do not need more taxes on agriculture.

Federated Farmers will be making a detailed submission supporting our views.

- **\$30-60k more tax for some tourism operators**

Some tourism operators will pay another \$30-60k a year under the funding proposals. Again, there is no justification for this. The Tourism Industry Association will be making a detailed submission supporting our views.

- **\$ 30,000 tax on our emergency services**

The SAR sector will pay \$30,000 under these proposals. This is a huge and unnecessary impost on our emergency services.

10 Industry demands a stop to these new and unnecessary costs and this process.

In our view, and those of many other submitters, the proposals do not provide enough transparency or information for operators to easily assess the impact on their businesses. It is significant that none of the proposals provide worked examples of the overall effect on the new regime to individual operators.

Due to the significant risks these proposals may have on operators, combined with it being clear there is a lack of awareness in the sector we are requesting a **halt to the consultation** until more transparent information is available. **In addition to our repeated requests directly to CAA we hereby also formally request at least a month's extension to the consultation deadline of 19 February 2016.** We also request that industry is given proper opportunity to engage with CAA and other agencies to develop a robust and equitable funding framework going forward.

We ask that CAA stops this ill-conceived process – and works constructively with industry to develop proposals which we can support.

Safety is a shared responsibility – between industry, CAA and government – and they all must make the right contribution to this goal.

ENDS